04805724/9 **Links**
Gale Group PROMT(R)

04805724 **Supplier Number:** 47071150 **(THIS IS THE FULLTEXT)**

DCR Downgrades First Deposit National Bank, Providian National Bank and Assigns Preferred Stock Rating for Providian Bancorp
PR Newswire , p 127NYM123
Jan 27 , 1997
Language: English **Record Type:** Fulltext
Document Type: Newswire ; Trade
Word Count: 966

Text:

CHICAGO, Jan. 27 /PRNewswire/ -- Duff & Phelps Credit Rating Co. (DCR) has downgraded the senior long-term obligation ratings for First Deposit National Bank and Providian National Bank. The senior long-term obligation ratings for the two banks were downgraded to 'A' (Single-A) from 'A+' (Single-A-Plus). The short-term obligation ratings for the two banks were reaffirmed at 'D-1' (D- One). These actions remove the ratings for the two banks from Rating Watch-- Down status.

Additionally, DCR assigned a credit rating of 'BBB' (Triple-B) to the $150 million trust preferred securities offering of Providian Capital I (PBC1). PBC1 is a grantor trust that is a wholly owned special purpose finance subsidiary of Providian Bancorp, Inc. (PBI), which is the parent company for First Deposit National Bank and Providian National Bank. The 30-year 144A issue is noncallable for 10 years. However, PBI can redeem the securities if the securities lose their favorable tax treatment. The proceeds from the issue qualify as Tier 1 capital and are expected to be used for general corporate purposes. DCR's ratings reflect the risk profile and ratings of PBI.

The downgrades of the senior long-term obligation ratings for First Deposit National Bank and Providian National Bank are in response to the Dec. 30, 1996 announcement by Providian Corp. that it intends to sell its insurance operations to Aegon NV. PBI will be spun-off as an independent company to existing Providian Corp. shareholders before the deal with Aegon NV is consummated. DCR's previous ratings for the two banks reflected the implied support of their ultimate parent, Providian Corp. The rating actions are based on the belief that the spin off will gain approval from shareholders and regulatory agencies. The spin off is expected to be consummated before the end of June.

A highly sophisticated approach to the unsecured credit card business has allowed Providian Bancorp to possess industry leading profitability measures. Providian Bancorp has employed a strategy of targeting customers that are more sensitive to credit availability than a low annual percentage rate. This strategy has produced net interest margins that are much higher

than industry norms. Providian's managed net charge-off ratio has remained within a range of 4.5-5.5 percent over the past several years. This performance is in line with the industry average. However, Providian's higher returns differentiate it from its peers.

Management made substantial investments in technology over the past few years, which has given Providian Bancorp the capability to customize credit card products at the point of sale. Customization entails allowing the customer to become actively involved in the process of determining the annual percentage rate, credit line or other terms of their credit card. These investments allow Providian Bancorp to offer more than 200,000 various combinations of terms and conditions at the point of sale. Mass customization capabilities give Providian Bancorp a significant competitive advantage over most credit card issuers. Balance and account attrition rates have fallen much below industry norms since the inception of mass customization.

Providian Bancorp has been offering a zero-percent, three-month introductory rate on its unsecured credit cards for the past year. After the introductory rate expires, the rate on balances transferred is determined by the non-introductory rates the customer was paying on their other accounts. Without sacrificing much in yield, Providian's new marketing strategy has driven its strong receivable growth of late and improved customer retention beyond the introductory-rate period. That said, DCR believes that in the long term, this new marketing strategy may move Providian Bancorp's industry leading profitability measures closer to peer norms.

Like the industry, Providian Bancorp has recently experienced a modest rise in net credit losses, but DCR believes that an impressive credit risk management process should keep future deterioration within a manageable range. Vintage analysis does not indicate any disturbing trends in credit quality. It should be noted that Providian Bancorp grants higher-than-industry average credit lines, which exposes the institution to additional credit risk. However, management is constantly enhancing its proprietary credit risk models to improve its predictive abilities. The underwriting process attempts to continually balance the higher profitability and customer utilization associated with higher credit lines, with the increased potential loss exposure. Management is also actively adjusting pricing on accounts that have taken on more risky characteristics.

Management is focused on building its home equity lending and secured credit card businesses to diversify the earnings of Providian Bancorp. The home equity lending business contributed 7 percent of Providian Bancorp's 1996 revenues. Management is using much of the expertise it acquired from growing the credit card business to build the home equity loan business.

The secured-card business probably holds greater future earnings potential than the home equity loan business due to the absence of large and dominant industry players. The secured credit card business is much more labor- intensive than the regular credit card business due to the need for high levels of customer service. Management has made considerable investments in technology to lessen the human element in the customer service function. Operating efficiency has greatly improved over the past year, which has allowed management to boost its solicitation activity. DCR believes that Providian Bancorp is growing this business at the appropriate time because very few credit card issuers are proficient at secured-card lending.

First Deposit National Bank and Providian National Bank are subsidiaries of Providian Bancorp, Inc. The banks possess nearly $10 billion in managed receivables, with unsecured receivables responsible for approximately 85 percent.

SOURCE Duff & Phelps Credit Rating Co.

-0- 1/27/97

/CONTACT: W. Todd Isom, CFA, 312-368-3214, or isom@dcrco.com, or James E. Moss, 312-368-3213, or moss@dcrco.com, both of Duff & Phelps Credit Rating Co./

CO: First Deposit National Bank; Providian National Bank; Providian Bancor p,
Inc. ST: IN: FIN SU: RTG

SR
-- NYM123 --
1340 01/27/97 15:14 EST http://www.prnewswire.com

Publisher Name: PR Newswire Association, Inc.
Company Names: *First Deposit National Bank; Providian Capital I; Providian National Bank.
Event Names: *850 (Financial analysis)
Geographic Names: *1USA (United States)
Product Names: *6020000 (Commercial Banks); 6730000 (Trusts)
Industry Names: BUS (Business, General); BUSN (Any type of business)
NAICS Codes: 52211 (Commercial Banking); 525 (Funds, Trusts, and Other Financial Vehicles)
Special Features: INDUSTRY; COMPANY